

MONEY NEWS

The newsletter of Moneywise Personal Financial Management Pty Ltd

ISSUE 1 – 2010

Market review and outlook – expectations for 2010 and beyond

We experienced a year of two different halves in 2009. The first six months was the equivalent of economic Armageddon and the greatest financial crisis since the Great Depression. In the second half of 2009, we experienced a rebound on the upside in economic and stock market activity that surprised most commentators.

Our clients who held to their long-term investment strategy and took advantage of weakness in share prices have managed to navigate the perils of the Global Financial Crisis in reasonable shape.

It is a fact that we will continue to experience economic and/or financial crises throughout our lifetime, in conjunction with economic booms as part of the ongoing economic cycle. In this mix, there are always themes emerging such as the rise of China and the threat of inflationary pressures.

We believe that ‘sticking to our guns’ and employing time-tested investment techniques to meet new challenges will continue to serve investors well.

Global economic data for the second part of 2009 remained consistent with a recovery in activity, with industrial production and trade rising to levels that historically have been consistent with robust growth.

The pick-up in economic activity was especially evident in the world’s largest economy, the US, although the economy is still plagued with high unemployment (unlike Australia). The Federal Reserve still believes the US has some way to go to return to ‘normal’, as it has kept interest rates at historically low levels.

The improvement in economic activity has fed into world equity markets as they have rebounded almost 60% from their low points in March 2009. The MSCI Index (measure of world equity prices) has finished 2009 22% higher in local currency terms than the start of the year. The Australian market has performed even better rising 31 % over the year.

At the same time, we do not see rapid recovery in activity because of two principal issues facing most of the developed world economies – consumer debt and government deficits.

Governments cannot keep running large deficits to stimulate activity as it will be inflationary. How these issues are addressed in the long term will determine future world growth and, consequently, their impact on world share markets.

Currently, cheap money and low interest rates, particularly in Europe and USA, are the short-term fix to stimulate activity, but that does not solve the debt issue.

In Australia, there seems to be a general view that the consumer is highly leveraged and, therefore, susceptible to the same problems in the US and Europe. It is true that household debts have risen to record levels, but what is forgotten is that household assets (e.g. family home) have been rising at an even faster pace, which means that household gearing levels have actually reduced. One only needs to look at the rise in the median Melbourne house price over the past 12 months.

If the recovery is sustained, interest rates must rise. Australia is a good example of the sustained recovery and the consequent interest rate rises we have seen in the past three months.

If world growth continues, we will see other central banks in the second half of 2010 start to move rates upwards. How this will affect equity markets will depend on the scale of the rises and how sustained world economic growth will be for the remainder of the year.

We maintain a positive outlook for equity markets in 2010 as well as seeing some value in the fixed interest area (such as term deposits). However, we need to remember that equity markets are always subjected to periods of sharp volatility (i.e. late January sell-off) and keeping a long-term perspective in mind can assist in riding through these periods.



Anthony Chow
Managing Director



Ezio Nania
Executive Director



Jack Ettia
Director

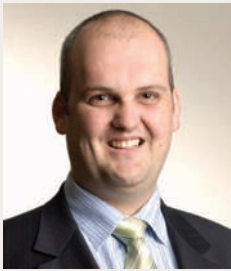
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MONEYWISE
PERSONAL FINANCIAL MANAGEMENT

What does 2010 hold for us in international markets?



Peter Mason
Senior Financial Planner

Investing internationally is one of the best ways to provide diversification within your portfolio, maximise investment opportunities and build wealth.

Most people feel that having international shares in a portfolio brings with it potentially higher risk and lower return. Generally, this is not the case as international shares tend to generate similar returns, but with less volatility than domestic shares.

The table below shows the maximum and minimum returns each major asset class has experienced over the past 30 years.

Range of returns over the past 30 years

Australian Shares	Australian Listed Property	International Shares	Australian Fixed Interest	Cash
-38.44% to 40.05%	-53.99% to 34.03%	-27.44% to 41.67%	-4.69% to 24.75%	3.47% to 18.37%

Data sourced from Iress, Bloomberg, RBA and The Australian Bureau of Statistics.

As you can see, the volatility of international shares to Australian shares is less over this time frame and significantly less than the listed property sector.

We all use products and services that are produced or provided by international companies every day. Yet many people are hesitant to look at investing in these companies because they are not based in Australia.

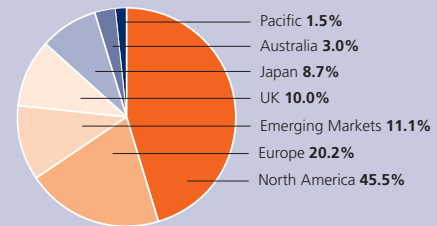
Sometimes, we need to remind ourselves that the Australian market makes up only a small proportion of the world's total investment market.

The Australian market only makes up approximately 3% of the current world market so this means that you could possibly be missing out on 97% of global market opportunities. The pie chart above shows this allocation.

The Australian Securities Exchange (ASX) has approximately 1,400 companies listed, compared to the New York Stock Exchange, which has nearly 2,800 companies listed on it alone.

The Australian market could be said to be concentrated in a few sectors, with a few companies dominating these sectors. An example of this is the Finance Sector, which is dominated by the major banks and insurance companies and make up approximately 30% of the ASX. This can mean that if one company underperforms, it can pull down the whole sector.

Cap-weighted share allocation



Source: MSCI World AC Index.

Equity markets bottomed in March 2009 and since then we have seen some positive growth around the globe. However, this does not mean that we will not see a few stumbling blocks throughout the year. But the long-term outlook is positive as was emphasised with the United States having 5% growth in the last quarter of 2009.

People may be concerned about how to access international markets and the added risk of investing in another currency. However, well managed currency strategies can significantly reduce the risk and enhance your return from this asset class. Also, most international managed funds have different approaches and different management teams to assist in achieving their fund's return.

Over the years, we have assisted our clients with investing through various specialist international fund managers to access this asset class. One of the funds that we have used predominantly in most of our portfolios is the Platinum International Fund.

This fund has assisted our clients with a consistent exposure to international assets. The Platinum International Fund did relatively well last year as it had an increased exposure to the emerging markets in Asia.

This exposure saw the fund return 19.7% for the calendar year, which was a considerable difference from the MSCI World Index return of 4.4%.

The Platinum performance came from good stock selection (90%) and active currency management (10%) that reduced the currency risk. Our clients see this return distributed as income at the end of each financial year. Please note: This return has varied from year to year.

As markets recover over the next year, Moneywise will continue to look for opportunities to participate in this asset class.

"The Australian market only makes up approximately 3% of the current world market ..."

The China story – growth and prosperity

The Chinese economy has performed remarkably well during the Global Financial Crisis (GFC), especially when compared to developed nations such as the United States and Japan. Rather than experiencing negative growth, China has continued to expand.

The geographic location of Australia has allowed us to benefit substantially from our relationship with China, particularly within the mining industry (metals, commodities, energy), which has experienced significant demand from the emerging superpower.

For years, China has been synonymous with inexpensive labor, enabling it to produce goods at a lower cost relative to other countries. Developed countries such as the US and Australia took advantage of their low production cost, fuelling export demand. This demand is what many believed to be the primary reason for China's growth.

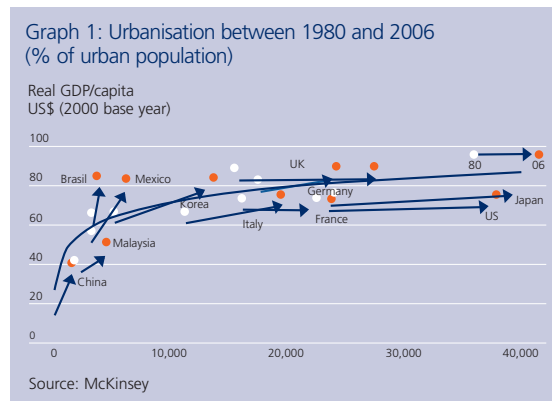
When the demand from developed countries decreased as a consequence of the GFC, many expected China's growth to also decrease substantially. Yet, despite many western countries being in recession, the Chinese economy achieved near double-digit growth.

This is because the driver for this growth is not exports, but internal demand (in this case – urbanisation). Higher urban income has attracted millions of farmers suffering from poverty to move into cities. This urbanisation has created enormous demand for infrastructure, housing, amenities, industrialisation and commercial development within China.

What is remarkable about the urbanisation process in China is its size. Every year, around 15–20 million people move into urban areas – that's roughly the size of Australia's population flooding into China's cities every year.

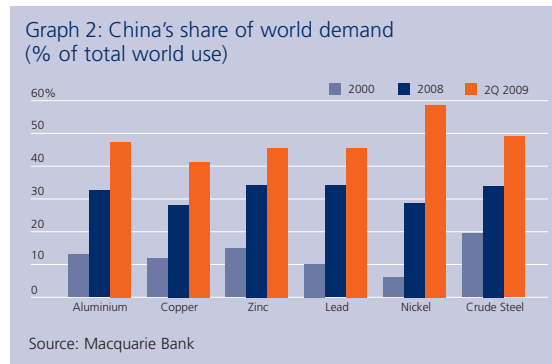
China's installed floor space is expected to double by 2025, with the annual construction of 2.5–3 billion square metres, which is equivalent of building Canada every year. Over 65% of this demand will come from the development of residential real estate in urban areas.

China is experiencing what the West did during the industrial revolution. But China is still in the early stage of urbanisation. Chart 1 shows the progress of urbanisation in 11 countries with China being the slowest. It also highlights that GDP per capita increases with urbanisation and wealth is created during this process.



The expected duration of China's urbanisation and the rise in Chinese incomes and consumption means demand and growth will continue in the years ahead.

This level of demand from urbanisation increases the need for raw materials such as iron ore and copper. China is currently leading the global commodity demand. Chart 2 clearly shows that Chinese demand for metals has increased significantly over the years – around 500% on average (being 10% in 2000 and now around 50%).



Jasmin Zhang
Associate Financial Planner

"...despite many western countries being in recession, the Chinese economy achieved near double-digit growth."

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Super News Roundup

Ripoll inquiry report

The Parliamentary Joint Committee (PJC) for financial products and services tabled its report on the Inquiry into financial products and services ('Ripoll Inquiry') into parliament on 23 November 2009.

Eleven key recommendations were made to the Government. Of these, those that have received most press coverage and generated discussions include recommendations to:

- amend the Corporations Act to explicitly include a fiduciary duty for financial advisers, requiring them to place their client's interests ahead of their own;
- consider making financial advice costs tax deductible;
- develop the most appropriate mechanism by which to cease payments from product manufacturers to financial advisers; and
- increase the powers of the Australian Securities and Investments Commission (ASIC) to deny, suspend or cancel financial services licenses.

Moneywise welcomes these PJC recommendations.

The Value of Financial Advice

Research conducted by KPMG Econtech for the Investment and Financial Services Association (IFSA) has revealed that:

- those with a financial planner have \$2,650 on average more in savings and investment balances than those without a planner (based on the level of savings in the 2007/08 financial year).
- an individual who has a financial planner saves an additional \$2,457 each year compared to a similar individual without a financial planner.

Concessional Contribution Caps

Generally, concessional contributions are contributions made into your SMSF that are included in the SMSF's assessable income. The most common types are employer contributions and personal contributions that members claim as an income tax deduction. Employer contributions include super guarantee contributions and salary sacrifice contributions. These contributions are taxed in your SMSF at a 'concessional' rate of 15%, which is often referred to as 'contributions tax'.

From 1 July 2009 the concessional contribution limits below apply to the **total** contributions made on behalf of a member irrespective of whether they are made by multiple employers or unsupported members.

The work test applies to members between the ages of 65 and 74.

Concessional contribution limits from 1 July 2009

Year	Under age 35	Age 35 to 49	Age 50 to 74
2012-13	\$25,000*	\$25,000*	\$25,000*
2011-12	\$25,000*	\$25,000*	\$50,000
2010-11	\$25,000*	\$25,000*	\$50,000
2009-10	\$25,000*	\$25,000*	\$50,000
2008-09	\$50,000*	\$50,000*	\$100,000
2007-08	\$50,000	\$50,000	\$100,000

*From 2010-2011 the \$25,000 will be indexed to AWOTE but will only increase in \$5,000 increments.

The \$50,000 will not be indexed.

The China story – growth and prosperity continued

This sudden demand caught the world by surprise, drastically increasing the price of the major commodities. China's boom has benefited not only miners but also many other industries such as engineers, contractors, retailers and banks.

Furthermore, Chinese businesses often invest their profits overseas, which leads to employment, consumption, exports and wealth.

Australia has been one of the main beneficiaries of this demand due to our dominant resources industry. Our exposure to China has enabled us to recover from the GFC without suffering the same detrimental effects as other Western nations.

China's story is one of remarkable growth and prosperity and Australia is well positioned to benefit from its relationship with such a dynamic country.

Information for this article was based on research done by BlackRock Asset Management Australia Limited.



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PERSONAL FINANCIAL MANAGEMENT

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